

# Importance of international finance assignment

[Business](#)



International Financial Management is unique primarily because the firm must deal in more than its own currency. [2] A multinational is a corporation that has operations in more than one country. [3] It is also called an International Corporation. It ordinarily consists of 1 parent company and about 6 foreign subsidiaries, typically with a high degree of strategic intervention between them. E. G. The Coca Cola Company is a multinational company, selling in more than 200 countries and having net sales of \$7169 million in the 1st quarter of 2009. 4] Financial advantages of foreign operations An overseas market provides a larger market and thus, a potential increase in the sales of the firm's products. For some corporations, it might mean a fall in production costs if their opening a subsidiary in a country that offers cheap labor, raw materials or machinery. Also, instead of only exporting goods to other nations, once an NC starts operations in another country, the risk of detrimental laws restricting the sales of their products as well as an increase in the tax on their products, decreases considerably.

Exchange rates and their effects An exchange rate is the expression of the value of one currency in terms of another amounts currency. [5] There are two ways of expressing this value: 1. Direct quotation: Domestic Currency / Foreign Currency 2. Indirect quotation: Foreign Currency/ Domestic currency The two methods are different ways of expressing the same thing.

Throughout the project, ERE is quoted in direct quotation. Banks in most countries use a system of Foreign Exchange Market and its Fluctuations The volume of international transactions has grown considerably in the past 50-70 years.

Trade and investment of this magnitude would be impossible without the ability to buy and sell currencies. The latter must be done for one currency is not the acceptable means of payment in all countries engaged in trade. The foreign exchange market is one of the largest in the world which facilitates the buying and selling of currencies, whose price is determined by the ERE. The market is over-the-counter, i. e. Trade is carried out using computer terminals, telephones, telecoms devices and SWIFT; an international banking communications network that electronically links brokers and traders.

It is not confined to any one country but is dispersed throughout the leading financial centers of the world. Participants The major participants are large commercial banks that trade with one another, channeling most currency transactions through the worldwide interbank market. Their transactions are conducted through foreign exchange brokers, who specialize in matching net supplier and demander banks. The brokers charge a brokerage fee and in return, offer anonymity to both parties and minimize the contact of banks with other traders.

Small banks and local offices of major banks have lines of credit with large banks or with the home office. Customers deal with the bank, which then makes use of the line of credit. Other players are brokers, international money centre banks, central banks of many countries, portfolio managers, foreign exchange brokers, hedgers, traders and speculators. Another actor in the market is the arbitrageur, who seeks to earn risk-free profit by taking advantage of difference in interest rates between countries and make use of forward contracts to eliminate ERE risk.

If the value of home currency A decreases relative to the value of currency B, A is a weakening or depreciating currency and B is a strengthening or appreciating currency. ERE quoted indirectly will fall. For the importers of country A, one of their home currency is required to purchase goods of country B. The vice versa is true for country B. Therefore, the attractiveness of a country's goods and services abroad is judged by the relative values of the currencies of the importing and exporting countries. Types of Transactions 1 .